Annual Report 1973

SCOTT MISENER STEAMSHIPS LIMITED

OFFICERS

Chairman of the Board and Chief Executive Officer .... Ralph S. Misener

Assistant Chairman of the Board .. J. N. McWatters

President .... Scott A. Misener

Vice President, Finance .... J. F. Vaughan

Vice President, Operations .... G. D. Clarke

Secretary .... G. M. Carl

Treasurer .... J. F. Vaughan

Assistant Secretary .... P. G. Cathcart

Assistant Treasurer .... G. Crompton

DIRECTORS

T. R. Anderson

Nixon Berry, Q.C.

G. M. Carl

G. D. Clarke

Hon. John J. Connolly, P.C., O.B.E., Q.C.

J. H. Luxton

J. N. McWatters, F.C.I.S.

Ralph S. Misener

Scott A. Misener

Robert S. Pierson

George C. Stewart

J. F. Vaughan, C.A.

HONORARY DIRECTORS

Frank H. Brown, C.B.E.

A. E. Pequegnat

SCOTT MISENER STEAMSHIPS LIMITED

INTERIM REPORT

For the six months ended

September 30, 1973

Chairman
RALPH S. MISENER

Assistant Chairman
J. N. McWATTERS

President
SCOTT A. MISENER

SCOTT MISENER S

CONSOLIDATED STATEMENT FOR THE

(with comparativ

INCOME:

	Six Months Ended September 30	
	1973	1972
Gross Revenues:	8,345,037	6,304,702
Operating Profit before providing for Depreciation on Vessels	3,256,174	2,138,395
Depreciation on Vessels	939,094	948,307
Operating Profit	2,317,080	1,189,958
Interest on Funded Debt	435,014	482,865
	1,882,066	707,093
Add: Other Income	85,064	14,756
Income Before Taxes	1,967,130	721,849
Income Taxes	994,000	352,700
Net Income for Period	973,130	369,149
Income per Common Share	1.30	.49
Income per Common Share after deducting dividend rights on first preference shares	1.19	.39

1594
973
621

789
369
41

Note: The above figures show the results for the first six months o

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(MONTHS ENDED SEPTEMBER 30, 1973

gures for 1972)

SOURCE AND APPLICATION OF FUNDS

	Six Months Ended September 30	
	1973	1972
Source of Funds:		
Operations — Net Income for period	973,130	369,149
Items not affecting working capital:		
Depreciation	939,094	948,437
Amortization of past service pension costs	25,000	25,000
Deferred Income Taxes	956,000	325,000
	2,893,224	1,667,586
Application of Funds:		
Additions to Vessels & Equipment	52,396	182,567
Current requirements on long term debt	850,000	350,000
	902,396	532,567
Dividends Declared	38,880	–
	941,276	532,567
Net Increase in Working Capital	1,951,948	1,135,019

nine-month vessel operating season and should not be extrapolated.

October 19, 1973

The early opening of navigation on the Great Lakes and a substantial increase in the rates for the carriage of American grain to St. Lawrence Ports has resulted in improved earnings for this six-month period over the same period of last year.

Deliveries by our vessels to the St. Lawrence Ports in the first six weeks was hampered by the lack of ocean tonnage to receive the export grain. However, we have been fortunate this year in being able to match our down-bound grain cargoes with up-bound ore, thereby increasing our earnings.

The dividends on the 5½% Preferred Shares were reinstated with the declaration and payment of the current quarterly dividend due July 15, 1973. On October 3, 1973, the Directors declared the current quarterly dividend due October 15th, together with the payment of four of the quarterly dividends in arrears. There now remain twelve quarterly dividends in arrears for a total of $466,564.

We have a good volume of grain booked for the balance of this season and iron ore to match these cargoes, with the bulk of our grain tonnage allocated to the Canadian market. The recent rail strike, however, has reduced the scheduled supply of export grain and we are again experiencing delays in loading at Thunder Bay. Whether this will correct itself before the end of the season remains to be seen. There is every indication that we will be operating into late December and possibly in January. If these additional operating days are available, they could compensate for the delays that we are experiencing at the present time.

It would be in the best interests of the Country and the Company to extend the shipping season, particularly on the Upper Lakes and as far east as Kingston, and eventually to the Seaway, as this would substantially increase the volume of grain moved by water to the export markets. The savings available to the producer by the use of water transportation should encourage the Department of Transport and the Seaway Authority to use their best offices to extend the navigation season on the Great Lakes.

RALPH S. MISENER
Chairman of the Board

SCOTT MISENER STEAMSHIPS LIMTED

annual report 1973

officers

Chairman of the Board and Chief Executive Officer	Ralph S. Misener
President	J. N. McWatters
Vice-President	Scott A. Misener
Secretary	Nixon Berry
Treasurer	J. F. Vaughan
Assistant Secretary	G. M. Carl
Assistant Treasurer	G. Crompton

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Robert S. Pierson

George C. Stewart

J. F. Vaughan, C.A.

honorary director

A. E. Pequegnat

SCOTT MISENER STEAMSHIPS LIMTED

SHIPS OF THE FLEET

	Grain Capacity in Bushels
S.S. GEORGE M. CARL	550,000
S.S. JOHN A. FRANCE	900,000
S.S. JOHN O. McKELLAR	710,000
S.S. J. N. McWATTERS	900,000
S.S. JOHN E. F. MISENER	675,000
M.V. RALPH MISENER	930,000
S.S. SCOTT MISENER	775,000
S.S. ROYALTON	440,000

AUDITOR'S REPORT

To the Shareholders of
Scott Misener Steamships Limited:

We have examined the consolidated balance sheet of Scott Misener Steamships Limited and its subsidiaries as at March 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
May 16, 1973.

Clarkson, Gordon & Co.
Chartered Accountants.

CHAIRMAN'S REPORT TO SHAREHOLDERS

Substantial Canadian and U.S. grain sales for delivery to the St. Lawrence, combined with an increased demand for iron ore, enabled us to operate at nearly full capacity. We also managed some diversity of our smaller units by carrying a number of salt cargoes and pulpwood cargoes.

The tonnage carried by your Fleet in the 1972 shipping season ranks third in the history of the Company. This was accomplished after severe ice conditions had delayed navigation in the Seaway by sixteen days, and, there were some casual work stoppages in both the grain and ore ports in the St. Lawrence.

We were successful in safely extending the navigation season when the S/S "Scott Misener" arrived with a storage cargo of Canadian grain at Midland on the second day of January, 1973.

While our financial position improved appreciably the established freight rates, particularly for grain, did not provide your Company with a reasonable return on the investment in its Fleet. Before providing for annual dividends of $155,521.00 on the preference shares, the income for 1973 was $495,842.00, a return of 3.6% on the depreciated cash value of the Fleet. Using the estimated replacement cost of the Fleet of $62,000,000.00 (excluding subsidies), the return to the shareholders for 1973 would have been negligible. Obviously, there is no way your Company can justify adding to its Fleet another vessel the size of the M/V "Ralph Misener", at an estimated cost of $10,000,000.00, (excluding subsidy) with the rates we now have. The rate for iron ore has decreased since 1962 by 10.5%. The grain rates have moved down since 1962 by 31%. Our daily operating costs in this period have increased by 41%. We must have increased rates if we are going to be able to accumulate capital for the Company to replace older and less economical vessels.

I can report at this time that our Fleet is in excellent physical condition. The M/V "Ralph Misener" was drydocked late in May, 1973, for her mandatory quintennial survey for the Department of Transport and classification societies. This will complete a three year cycle for surveys on our vessels and it will be the 1975 season before another vessel is due for docking and survey. After survey each vessel returned to service certified 100 A 1 for hull and machinery for a five-year period, with the exception of the older vessels "Carl" and "Royalton" which were certified for a four-year period.

We have every reason to believe that the 1973 shipping season will see a strengthening of the requirements for lake freight. Grain rates have increased substantially for American grain with reasonable allowances designed to compensate the owners for unscheduled delays at certain port facilities. There are labour negotiations at two of our major grain loading ports but we are hopeful these may be settled without work stoppages. If the congestion in the grain ports in the lower St. Lawrence, that plagued us last year and again, to some extent, this season, can be resolved, we can expect an improvement in earnings. We are hopeful that with a continued demand for tonnage and with the co-operation of both the Department of Transport and the Seaway Authority, we can operate into January, 1974.

We have great pride in the Officers of our ships and the men who sail on them and their loyal service to your Company. On behalf of the executive officers and directors of your Company, we wish to express to them and the shoreside personnel, our sincere appreciation.

On behalf of the Board

Ralph S. Misener
Chairman of the Board and Chief Executive Officer

John N. McWatters
President and Chief Operating Officer

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ASSETS

	1973	1972
CURRENT:		
Cash and short term deposits	$ 1,598,676	$ 795,006
Marketable investments at cost and accrued interest (which approximates market value)	81,560	79,833
Accounts receivable	251,765	83,418
Fuel, supplies and other prepaid expenses	177,377	168,905
Total current assets	2,109,378	1,127,162
FIXED - at cost (note 1):		
Vessels	39,706,828	39,521,460
Less accumulated depreciation	18,396,243	17,032,914
	21,310,585	22,488,546
Land and other fixed assets	196,743	173,955
Less accumulated depreciation	115,748	102,898
	80,995	71,057
Total fixed assets	21,391,580	22,559,603
DEFERRED PENSION COSTS less amounts written off (note 2)	79,167	129,167
	$23,580,125	$23,815,932

On behalf of the Board:

Ralph S. Misener, Director

J. N. McWatters, Director

See accompanying notes to

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he laws of Canada)

BALANCE SHEET
1, 1973
es at March 31, 1972)

LIABILITIES

	1973	1972
CURRENT:		
Accounts payable and accrued charges	$ 454,781	$ 393,117
Taxes payable	16,687	
Current requirements on long term debt	800,000	1,300,000
Total current liabilities	1,271,468	1,693,117
LONG TERM DEBT (note 3)	8,650,000	9,450,000
DEFERRED INCOME TAXES	8,058,000	7,568,000
SHAREHOLDERS' EQUITY:		
Capital stock (note 4) — 5½% cumulative redeemable first preferred shares of the par value of $20 each: 151,896 shares authorized of which 141,383 are outstanding ..	2,827,660	2,827,660
Common shares of no par value: 1,500,000 shares authorized of which 750,000 shares are issued	30,000	30,000
	2,857,660	2,857,660
Retained earnings (note 5)	2,742,997	2,247,155
	5,600,657	5,104,815
	$23,580,125	$23,815,932

solidated financial statements.

SCOTT MISENER STEAMSHIPS LIMTED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 1973
(with comparative figures for 1972)

INCOME

	1973	1972
Gross revenues	$9,962,349	$8,353,647
Operating profit after deducting research and development costs of $117,000 in 1973 ($135,000 in 1972) but before providing for depreciation	$3,004,369	$2,114,416
Deduct depreciation	1,378,318	1,362,035
Operating profit	1,626,051	752,381
Interest on long term debt	691,733	787,753
	934,318	(35,372)
Other income:		
Income from investments	66,541	42,190
Gain (loss) on disposal of fixed assets	156	(1,101)
Gain on sale of investments	727	
Sundry		1,050
	67,424	42,139
Income before taxes (and depreciation adjustment in 1972)	1,001,742	6,767
Income taxes	505,900	1,000
Income before depreciation adjustment in 1972	495,842	5,767
Restatement of depreciation accumulated in prior years less income taxes applicable thereto, $2,710,000 (note 1)	784	2,645,351
Net income for year	$ 495,842	$2,651,118
Income (loss) per common share after deducting dividend rights on first preference shares (1972 - before depreciation adjustment)	288 $.45	25 $(.20)

RETAINED EARNINGS

	1973	1972
Retained earnings (deficit) at beginning of year	$2,247,155	$ (403,963)
Net income for year	495,842	2,651,118
Retained earnings at end of year	$2,742,997	$2,247,155

See accompanying notes to consolidated financial statements.

SCOTT MISENER STEAMSHIPS LIMTED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED MARCH 31, 1973
(with comparative figures for 1972)

	1973	1972
SOURCE OF FUNDS:		
Operations —		
Net income for year (before depreciation adjustment in 1972)	$ 495,842	$ 5,767
Items not affecting working capital:		
Depreciation	1,378,318	1,362,035
Amortization of past service pension costs	50,000	50,000
Loss (gain) on disposal of fixed assets	(156)	1,101
Deferred income taxes	490,000	(17,000)
Funds from operations	2,414,004	1,401,903
Proceeds from disposal of fixed assets	2,211	6,458
	2,416,215	1,408,361
APPLICATION OF FUNDS:		
Additions to vessels and equipment	212,350	116,493
Current requirements on long term debt	800,000	1,300,000
	1,012,350	1,416,493
INCREASE (REDUCTION) IN WORKING CAPITAL	1,403,865	(8,132)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	(565,955)	(557,823)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ 837,910	$ (565,955)

See accompanying notes to consolidated financial statements.

SCOTT MISENER STEAMSHIPS LIMTED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1973

(1) Fixed assets —

The company provides for depreciation of vessels built for it at an annual rate of 3⅓% of cost. Vessels which were in service prior to acquisition by the company and other fixed assets are depreciated at rates sufficient to amortize their cost over their estimated useful lives. Prior to 1972, the company followed a policy of depreciating vessels built for it at rates sufficient to amortize their cost over periods of 20 to 25 years. During 1972 a review of the remaining useful life of these vessels indicated that the company could expect service lives in excess of 30 years and accordingly the company revised its annual rate of depreciation to 3⅓% of cost and restated the depreciation accumulated to March 31, 1971. The change in policy resulted in a reduction of accumulated depreciation at the beginning of 1972 of $5,355,351 which, after deduction of deferred income taxes applicable thereto, $2,710,000, was reflected in the statement of income for 1972.

(2) Pension plan —

Effective November 1, 1964 the company instituted a pension plan for salaried personnel and an amount of $500,000 was paid for past service pensions, which is being amortized over a ten-year period commencing November 1, 1964. The most recent actuarial revaluation, as of November 1, 1970, indicated that there was no unfunded liability for past services.

(3) Long term debt —

This consists of:

	1973	1972
First mortgage bonds —		
Authorized to be outstanding at any one time — $12,000,000		
Issued less redeemed —		
Sinking fund 6.8% bonds series "D" due November 30, 1986	$ 8,400,000	$ 9,000,000
Bank loan 7.5% due June 1, 1974 (secured)	1,050,000	1,750,000
	9,450,000	10,750,000
Less current requirements on long term debt	800,000	1,300,000
	$ 8,650,000	$ 9,450,000

Sinking fund and loan requirements during the next five fiscal years are as follows:

1974	— $ 800,000
1975	— 1,450,000
1976 to 1978	— 600,000 each year

(4) Voting rights —

As the company is in arrears to the extent of more than eight quarterly dividends on the preferred shares, the preferred shareholders are entitled:

(a) to receive notice and attend all shareholders' meetings and have one vote per share, and

(b) voting separately and as a class, to elect one member of the Board of Directors.

These rights continue so long as there are dividends in arrears on the preferred shares.

(5) Retained earnings —

(a) Retained earnings in the amount of $210,260 are designated as capital surplus in accordance with Section 62 of the Canada Corporations Act as a result of the redemption of 10,513 preferred shares in prior years.

(b) The trust deeds securing the first mortgage bonds contain certain restrictions on distributions to shareholders, which restrictions have become effective and accordingly payment of dividends without consent of the holders of the first mortgage bonds would create a default under the trust deeds.

(c) No provision has been made in the accounts as at March 31, 1973 for arrears of cumulative dividends on the 5½% redeemable first preferred shares, $622,085.

(6) Statutory information —

As defined by the Canada Corporations Act, the company has twelve directors and four officers (all of whom are directors). Expenses for 1973 include remuneration to the above as follows:

(i) fees of directors	$ 25,600
(ii) remuneration of officers	142,192
	$167,792

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